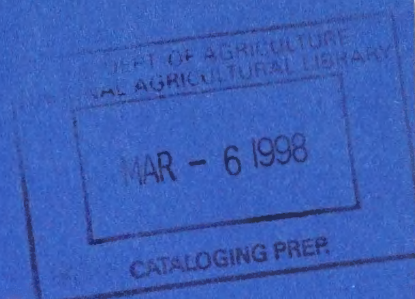


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Price Impacts of Federal Market Order Programs

REPORT OF THE INTERAGENCY TASK FORCE
JANUARY 7, 1975

Special Report 12
Farmer Cooperative Service
U.S. Department of Agriculture

**United States
Department of
Agriculture**



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ACKNOWLEDGMENTS

In any undertaking of this type where a number of people are involved, the contribution of individuals turns out to be uneven. This outcome is inherent in such efforts; sooner or later the main burden of the work becomes distributed among a few.

In this instance particular recognition is due to Task Force members Walter J. Armbruster and Alden C. Manchester of the Economic Research Service, USDA. They served as focal points of expertise and activity from the early stages of the effort until the final production of this report. Their highly professional approach and unstinting effort was central to the measure of success the Task Force achieved.

And behind the scenes there were also those who gave more than is customary or conventional.

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To these, and to many others, the Chairman is deeply grateful.

PREFACE

"Agricultural Marketing Orders and other Federal regulations are being reviewed to eliminate or modify those responsible for inflated prices."

The President's Address delivered before a Joint Session of the Congress, October 8, 1974

In compliance with the President's declaration, an interagency Task Force was created by Assistant Secretary of Agriculture Richard L. Feltner and Director of Agricultural Economics Don Paarlberg on November 25, 1974.

The Task Force examined Federal market orders generally and specifically to determine what, if any, inflationary impacts these programs have had, are having, or may have in the future. Based on these determinations, the group has made recommendations aimed at attuning these programs more closely to the broader range of public interest centering on the National issue of inflation.

Matters pertaining to administrative decision processes and criteria, and the many other considerations involved in translating the basic enabling legislation into an operational reality, were considered in a secondary context. The report contains considerable material on these secondary matters because they have bearing on the conclusions that were reached and because the Task Force felt that these activities are neither widely nor sufficiently understood.

The Task Force has attempted to produce a report that offers relevant guidance for the weighty policy decisions that might follow from its efforts. To discharge the special trust and responsibility given it, the Task Force made every effort to examine the large body of factual material bearing on the inflationary impacts of Federal market order programs. But the consensus was that the group's evaluation and conclusions had to be based on more than the factual data alone. Therefore, this report represents the best collective judgment of the group. This the Task Force regards as the maximum contribution it can make to the important policy question it was called upon to examine.

January 7, 1975

Marshall R. Godwin
Chairman

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INTRODUCTION

During the past four decades marketing orders have come to occupy a prominent position in the dairy and fruit and vegetable sectors of U.S. agriculture. These orders are a unique type of public program designed to coordinate agricultural marketing activities at the producer and first handler stages of the marketing process. The objective of this coordination is to achieve the elusive and ill-defined objective of an "orderly marketing" system. In general terms, orderly marketing is achieved through regulating the flow of raw agricultural products into advanced stages in the marketing system in a manner that is consistent with the requirements and capabilities of this system. In more specific terms, orderly marketing may be achieved through one or more of the following: (a) stabilizing the flow of commodities to market to avoid gluts and shortages within a season or for the entire season; (b) maintaining the quality of commodities at some minimal level; (c) standardizing quality designations, including size and package types. The legislative base for the Federal market order programs provides for many other kinds of activity, all of which are ancillary support for the central objective of orderly marketing.

A marketing order is a legal instrument authorized by the Congress in the Marketing Agreement Act of 1937 and in numerous subsequent amendments. The Secretary of Agriculture is vested with the power to exercise the use of this instrument to regulate the marketing of eligible commodities under certain closely specified conditions. The Secretary generally issues an order for a commodity only if it is favored by a required majority of the producers who would be affected. This majority is usually two-thirds. Once a marketing order is issued by the Secretary it becomes binding on all handlers of the commodity concerned within the specified production or marketing area covered by the order.

Marketing orders combine the regulatory powers of government with self-administered actions of producers who elect to operate under the enabling legislation. Producers, and sometimes handlers, enter into the decision-making process that may ultimately result in a regulatory action, but the final authority rests with the Secretary.

The economic rationale underlying the market order concept is deeply rooted in the basic structural characteristics of agriculture. Farming is still a small scale activity relative to other sectors of the economy. There are many thousands of farmers whose independent actions have little effect on either supply or price of the commodities they produce.

On the other hand, there is substantial concentration of the decision-making process in the advanced stages of the marketing system into which raw farm products flow. The firms involved in final market

activity in effect control the movement of farm products to consumers. These final marketing firms can gear their operations closely to the needs of the consumers; they have the capability to buy or not buy according to their perception of these needs.

When production and marketing are uncoordinated at the farm level, it is only accidental if the combined efforts of farmers match the commodity needs of the market. The match-up problem is greatly compounded by uncertainties of the weather, pests, diseases, product perishability and a variety of other natural forces that bring about unplanned variability in the size of a particular crop and in the quantity of a product that may be available at a specific time. Hence, both the structure of agriculture and the nature of the production process make the farmer particularly vulnerable in the economic system to which he is attached. His is conventionally the passive role of price taker; subject to the actions of firms who can confine to the farm level the price and supply problems generated by the basic nature of the agricultural production processes. The amelioration of the price and supply problems inherent in the agricultural production process is the underlying objective of the federal market order programs.

While the Marketing Agreement Act of 1937 is the basic legislation for all market order programs, the application of the market order concept in the milk industry is distinctly different in many respects from its application to fruits, vegetables and specialty crops. In the case of milk market orders, the focus of the order provisions is directly on price. Though price is an important concern for the remaining commodities, the orders regulate quantity and quality of the available supply that can move into marketing channels; hence, price may be indirectly affected by market order actions.

This report examines the Federal market order programs in terms of their past, present, or future potential inflationary impact on the U.S. economy. Attention also is given to the information flow and decision processes which ultimately produce changes in the provisions of these orders.

The distinction between milk orders and those for other commodities dictates the basic organization of the report. Part I examines the Federal order program for milk; Part II examines the programs for fruits, vegetables and specialty crops.

PART I

MILK MARKETING ORDERS

BACKGROUND

Every day of the year, milk is produced on 300,000 dairy farms throughout the United States. Every other day, it is picked up at the producing farms by tank trucks, most of which are controlled by dairy farmer cooperatives, and moved to one of 1,600 fluid milk bottling plants or 3,000 dairy product manufacturing plants. This system must coordinate the varying production of milk with the varying demand for dairy products.

Complex public and private institutional structures have evolved over the past hundred years to deal with the problems of coordination, pricing, and distribution of the proceeds from the sale of milk.

Milk is a bulky, highly perishable commodity subject to bacterial contamination. It must be produced and handled under sanitary conditions. Then, it must either be marketed immediately in fluid form for direct consumption or else be processed into manufactured products in which form it may be stored.

Milk production fluctuates seasonally, generally expanding during the spring and early summer months and contracting in the fall and winter months. On the other hand, demand for fluid milk remains constant throughout the year and is relatively insensitive to changes in price (elasticity in the range of $-.2$ to $-.3$). Thus, when supplies are seasonally heavy, lower prices provide little stimulus to fluid milk consumption.

In earlier periods, this seasonal imbalance between supply and demand for fluid milk created serious pricing and marketing problems for producers. Their prices declined sharply in the spring and summer months of heavy production and then increased sharply in the short production season. To compound the problems, the comparatively small number of milk dealers had a tremendous advantage in dealing with a large number of unorganized producers with a homogeneous product to sell. The net result was that dealers reaped most of the profit from supply shortages while farmers had to bear most of the penalties of market surpluses. Dealers had another advantage in that they had the only basic information available as to milk supply and demand conditions in their area of operations. Further, weights and butterfat tests were not subject to effective verification.

Consumers of fluid milk products, on the other hand, did not benefit from wide price variations. When prices were high, many low-income consumers were deprived of adequate milk supplies. When prices were low, low-income consumers could increase purchases but the benefits to other consumers were marginal because of the limits on daily consumption and the impracticability of storing fluid milk products.

Almost from the very beginning of commercial milk production it was apparent that shortrun instability in prices due to seasonal fluctuations would lead to longrun uncertainty. Great uncertainty on the part of milk producers would either drive substantial numbers out of business or lead to wild swings in production and prices.

It also became apparent that pricing of flow commodities such as milk could not be handled efficiently by methods appropriate and efficient for crops which are harvested once a year. Prices could not be established by an auction or by daily negotiation between buyer and seller. From the earliest days, therefore, farmers have attempted to organize to bargain with processors over milk prices.

As early as 1910, producers in a number of markets had banded together into cooperative associations to bargain with milk dealers, or handlers, for a flat price for all milk, regardless of use. However, the pressure of reserve supplies, normal to the fluid milk industry, led to a breakdown of the flat price plan.

In an effort to promote stability in milk markets, cooperatives next developed the classified price system, where handlers paid for milk according to the use made of it. The price paid for milk used in manufacturing products was lower than the price paid for milk sold as fluid milk, reflecting the greater costs of handling and marketing perishable milk in fluid form. Returns to producers were stabilized in the face of considerable seasonality of production. Differential pricing reflected differences in demand elasticities in the markets for various products.

In the 1920's, classified pricing systems were established in nearly all major markets by bargaining between dairy farmer cooperatives and processors. During the 1930's, these systems broke down in most markets as depression conditions led to a drastic decrease in demand. Prices at all levels dropped sharply and farmers were in great economic distress.

The inherent instability of milk prices and the marketing problems that arose with the depression led to requests from dairy cooperatives for Government intervention to stabilize milk marketing conditions. The Agricultural Adjustment Act of 1933 authorized the Secretary of Agriculture to enter into marketing agreements with handlers, processors, and others and to issue licenses applicable to handlers and processors for the purpose of reestablishing the prices of agricultural commodities at parity levels. Milk and dairy products were among the agricultural commodities which could be regulated in this way.

Subsequent legislation went through two phases: In 1935 Congress provided for the issuance of orders rather than licenses and set more specific standards for the handling of milk while retaining parity as the standard of price determination; in 1937, however, Congress replaced parity with a standard of determining milk prices in relation to supply and demand conditions.

Conditions changed following World War II. Cooperatives in a small number of markets began to bargain for premiums over order prices. In some markets, these were short-lived; in others, they persisted for many years. A cooperative's success in negotiating such over-order premiums depended in part on its control of supply. If one cooperative, or a tightly-knit group of cooperatives, controlled enough of the supply, premiums were easier to negotiate.

At the same time, however, isolation of individual fluid-milk markets collapsed. Technological developments in transportation and processing methods, which provided longer shelf life for fluid products, made it possible to move milk over much greater distances--both in bulk and packaged form. Fluid milk markets 30-40 miles apart were once separate and distinct markets with very little competition between them. Recently, these same markets have merged, and cooperatives and processors in cities several hundred miles apart are increasingly in competition. Bulk milk now moves as far as 2,000 miles, and packaged milk 200-250 miles. Under such circumstances, bargaining on an isolated market basis has become increasingly difficult.

THE CONCEPT OF ORDERLY MARKETING

The Federal market order system was created during a period of extreme disorder at the bottom of the depression to help create orderly marketing conditions. If fluid milk markets were to have an orderly supply, there had to be orderly production. For orderly production--both efficient and remunerative--there had to be: (a) provision for orderly physical assembly and distribution; (b) dependable and equitable contract relations between handlers and producer organizations and between these organizations and their individual members; and (c) orderly relationships as to prices and supplies between different markets.

The structures and practices devised by cooperatives and handlers, and the complementary mechanism of regulation supplied through government milk marketing measures taken together, have gone a considerable distance toward achieving these ends. The basic concept of "orderliness" in the economic sense includes: (a) Order in the time dimension--as related to seasons, longer cycles, and long-run changes in productive conditions and consumptive demand; and (b) Order in the geographic dimension--within a single market area, within a region embracing several such areas, and in national areas of industrywide adjustment--including economic adjustment between the two branches of dairy farming, fluid milk and milk for manufacturing uses.

Early cooperatives viewed orderly marketing as a local rather than a national objective. This view was pervasive from the beginning in the drafting and administration of milk marketing orders. But something less parochial emerged in the sixties--a recognition that the outlook of the Secretary of Agriculture and his aides should be industrywide and national in its scope. Hence, the Secretary is empowered to develop a system of fluid milk marketing orders, integrated as to their relations with each other and with all the uses into which milk goes, not merely orderly as to their internal housekeeping.

MAJOR FEATURES OF MILK MARKETING ORDERS

Federal milk marketing orders set minimum prices for raw fluid grade milk which must be paid by processors to dairy farmers (usually through farmer cooperatives). All other provisions of the orders are subsidiary to the minimum price.

No Federal Order limits the quantity of milk produced or marketed. However, class I base plans in two markets (Puget Sound and Georgia) place limits on the amount of milk for which an individual producer can receive the class I price. Although, class I base plans do not control production or volume marketed, they do influence the distribution of proceeds among farmers.

Authority for class I base plans was added by legislation in 1965. The original authority provided for fairly restrictive base plans which would have had a considerable effect on discouraging entry by new producers. The Act was amended in 1970 to require that new producers be provided with relatively easy entry, which effectively "pulled the teeth" of the restrictive features of base plans. This is one major reason why only two milk markets have adopted class I base plans.

The Pricing System for Bulk Milk

The support price is the basic price which undergirds the entire price structure for bulk milk sold by farmers either directly or through cooperatives to handler-processors. The support price is determined annually (or more often, at the Secretary's option) under provisions of the Agricultural Act of 1949 which require that the support price be between 75 and 90 percent of parity. The minimum was 80 percent in 1973 and 1974. The support price is achieved by an offer by USDA's Commodity Credit Corporation to buy butter, nonfat dry milk, and American cheese at specified prices which are designed to return the support price to the farmer.

The price support program thus provides a floor under the price of milk used to manufacture butter, powder and cheese. The price paid to farmers for manufacturing grade milk (i.e., milk which is produced in facilities which do not meet the sanitary requirements for fluid use is competitively determined and is free to move above the support level if supply and demand conditions warrant. It does move above the support level in the short-supply season of most years and, at times, even in the flush season. The commonly used measure of the competitively determined level of manufacturing grade milk prices in the area where most such milk is produced is the Minnesota-Wisconsin (M-W) price series. The M-W price series has been above the support level since at least 1966 on an annual average basis (table 1).

The price of manufacturing grade milk reflects: (1) competitive conditions in the marketplace, including impacts of price support actions; (2) cost of milk production; (3) alternative employment opportunities--both farm and nonfarm; (4) demand for manufactured-milk products, and; (5) indirectly, through its effect on the quantity of milk used, demand for fluid milk products.

Under the Federal order system, minimum prices are established for milk for fluid (bottling) use and for that used in manufactured products. The characteristics of milk production and consumption are such that prices which reflect the supply and demand cannot remain static. Frequent changes are consequently necessary in order to reflect changing economic conditions and thus to maintain prices at the level authorized by the statute. If prices were to be changed solely on the basis of hearings, serious problems could arise in obtaining timely price adjustments to meet changing market situations. It has been necessary, therefore, to devise methods of changing prices automatically in response to changing economic conditions. Lengthy administrative procedures are avoided when changing economic conditions are appropriately reflected in milk prices by such methods. It is only when these methods do not operate satisfactorily that it is necessary to resort to hearings and accompanying administrative procedures in order to change them.

Prices are established for each of the 61 marketing orders on the basis of specified relationships to the Minnesota-Wisconsin price. With a few minor exceptions, prices for milk used in manufactured products (class II) are at or near the Minnesota-Wisconsin price base. Prices for milk for fluid use (class I) are higher by fixed differentials. The structure of class I prices conforms fairly closely to what one would anticipate in a competitive market on the basis of economic location theory. From a base point in the Upper Midwest in the heart of the largest surplus-production area (surplus with respect to fluid milk needs), the prices increase to more distant markets reflecting transportation costs and local supplies and demands. The differential between class I and class II prices in the 18th zone of the Chicago Federal order (the approximate base point) has been 90 cents since 1968.

Table 1

Selected milk price series

Year	: Support price : for milk	: Minnesota- : Wisconsin : price	: All-market : Federal order : minimum : Class I price	: Dealers' average : buying price for : milk used in : Class I products
<u>Dollars per hundredweight for 3.5 percent milk</u>				
1966	3.51	3.92	5.55	5.83
1967	3.84	3.99	5.85	6.18
1968	4.05	4.17	6.23	6.49
1969	4.13	4.42	6.50	6.78
1970	4.40	4.66	6.74	6.94
1971	4.71	4.81	6.90	7.12
1972	4.79	5.08	<u>2/</u> 7.10	7.26
1973	5.20	6.30	8.03	8.29
1974 <u>1/</u>	6.13	7.19	9.57	10.02

1/ January-September

2/ The Class I price in every Federal order market is the "basic formula" price--the M-W price for the second preceding month (the preceding month prior to February 1971)--plus a specified differential in each market. The all-market Federal order minimum Class I price has averaged around \$2.10 per hundredweight over the basic formula price every year beginning in 1968. Since changes in the Class I price lag changes in the M-W price, when monthly increases in the M-W price began to escalate in late 1972, differences between the all-market Class I price and the M-W price for the same month began to narrow. When the M-W price began to drop in April 1974, these declines were not reflected in Class I prices until two months later and the spread between the all-market Class I price and the M-W price for the same month began to widen.

This differential reflects, in part, the differences in costs of more expensive production facilities required to meet the sanitary regulations for Grade A milk (on the order of 25 cents) and, in part, the results of the differential pricing aspects of the order.

Effects on the Use of Milk

Federal orders do not determine or control the uses of milk, that is, the product forms in which it is eventually utilized. These determinations are made by handlers and processors on the basis of known and anticipated orders from their customers for fluid milk products. Milk not used for fluid milk products (class I) is utilized for manufactured products. The prices which handlers must pay for milk which goes into different uses obviously are intended to and do influence the quantities used, but there are no quantity controls in Federal milk orders.

The movement of milk from farm to processor or from one area to another is under the control of handlers and cooperatives. It too is influenced by order prices but there are no quantity controls. In earlier years, numerous barriers to movement of milk between areas were erected by sanitary regulations and product specifications of State and local health authorities and other regulations. Almost all of these have been removed by court and legislative action.

THE ROLE OF COOPERATIVES IN MILK MARKETING

Farmer cooperatives perform a major function in the sale of bulk milk to distributors in all but a few isolated fluid milk markets. Until very recently, producers in a few Southern States and in California relied largely on State controls to safeguard their interests.

In recent years, the role of cooperatives in many markets has been changing. They have broadened the scope of their operations in an effort to increase their market power. In Federal- and State-controlled markets, their principal role has shifted away from representing the producer in the price-making process through Federal order hearings or whatever arrangements a particular State might have. In many cases, they have assumed operation of the entire procurement system, including assembly and management of fluid milk supplies, routing raw milk to distributors as needed, and managing the surplus.

Many handlers have accepted full supply arrangements with a cooperative to reduce the high cost of procuring and coordinating a fluctuating supply to meet a variable demand. Under such an arrangement, the cooperative undertakes to supply the exact needs of the handler for milk for fluid use and perhaps for ice cream and cottage

cheese, and also to dispose of the surplus for other uses. Milk supply varies from day to day, depending on the vagaries of production by individual cows, weather, road conditions, and other uncontrollable factors. Demand likewise varies from day to day partly because more milk is being sold through supermarkets with a concentration of sales on weekends. The larger the volume under the control of one agency, the more the variations tend to offset one another, both within supply and demand and between the two.

Such full supply arrangements do not eliminate fluctuations, but they do reduce their impact on handlers by giving them a relatively simple, routine means of adjusting supply to demand with minimum effort and expense. Furthermore, a single agency is in a better position to make necessary adjustments and reduce the burden of uncertainty.

As cooperatives increasingly take over the task of coordinating supply and demand under full supply contracts or similar arrangements, substantial economies become possible. Reserve supplies of milk, which must be carried to meet fluctuations, become smaller. Significant savings become possible in the movement of milk--both in farm assembly and in movement to plants--when one agency is routing the total supply of the market. The function of manufacturing supplies of milk not needed for fluid use into various dairy products can be performed much more efficiently under such a system, since receipts of milk are not nearly as variable at a single plant receiving the surplus from an entire market. When each handler attempts to take care of his own surplus, tremendous variations occur from day to day in the volume being manufactured. Total economies in such a centralized supply-coordination and surplus-disposal operation, compared with a system in which each handler manages his own supply and surplus disposal, probably are about 20-22 cents per hundredweight. Potential gains from such arrangements will be shared between cooperative and processors in some proportion, depending on the relative bargaining strength of each. The economies are large enough so that both cooperatives and handlers can make substantial savings.

Changed bargaining relationships in the procurement market and lower operating costs associated with central supply management have helped create a climate in which cooperatives can bargain for and obtain payments over minimum prices established under the Federal orders. There are over-order payments in almost 90 percent of Federal order markets at the present time, an increase from 35 percent of the markets in 1964 and 60 percent in 1971.

From the mid-60's to mid-1973, over-order payments (including both premiums and service charges) on class I milk averaged 20-40 cents per hundredweight. Cooperative blend prices paid to producers in markets with such payments were generally close to and some times below Federal Order minimum blend prices. In these circumstances, it is apparent that the over-order payments barely covered cooperative costs.

In 1974, over-order payments have increased sharply. For 31 cities in Federal Order markets, they increased from an average of 33 cents in May to 94 cents in November. This increase is due primarily to the decline in Federal order class I prices (\$1.86 per hundredweight between May and September) and the effort of the cooperatives to maintain their selling prices.

IMPORT QUOTAS

Import quotas on dairy products are authorized under Section 22 of the Agricultural Adjustment Act when conditions are such that imports threaten the operation of the dairy price support program. While there is no legal or administrative connection with the Federal milk marketing order program, there is an obvious economic relationship. The effects of import quotas are outside the assignment of this Task Force. The Economic Research Service is now concluding, with assistance from the Foreign Agricultural Service and the Agricultural Marketing Service, a comprehensive economic analysis of the effects of removing import quotas.

THE DECISION-MAKING PROCESS FOR FEDERAL ORDERS

The Agricultural Marketing Agreement Act of 1937 and the Department's general regulations concerning proceedings to formulate marketing orders provide the legal framework within which the decision-making process must operate. The decision-making process is essentially the same for promulgation of new orders and for amendment actions; however, the pre-hearing procedures are generally less extensive for an amendment proceeding.

Normally, hearing proposals are submitted to USDA by producers or handlers. On occasion, however, proposals are submitted by State agencies, colleges, farm supply organizations and infrequently by consumer groups. The proposals are referred to the Dairy Division of the Agricultural Marketing Service (AMS) which is responsible for investigating each proposal and recommending that a hearing on the proposal either be called or denied. The investigatory work is done by Division marketing specialists.

Prior to recommending a hearing on a proposed new order, it is customary to determine that:

1. Marketing conditions in the area are such that the issuance of a milk order would contribute to improved price stability at the farm level.
2. The proposed order provisions would tend to carry out the purpose of the Act.

3. Marketing of milk in the area is in the current of interstate commerce.

4. Evidence pertinent to the consideration of a new milk order will be forthcoming at the hearing.

5. The proponents of the proposed order appear to have the support of a substantial number of producers in the market.

With respect to proposed order amendments, the primary considerations are whether the proposal would carry out the purposes of the Act, and whether there is a reasonable indication that marketing conditions have changed to the extent that amendments are probably warranted.

If it appears from the investigation that a hearing should be held, the Director of the Dairy Division recommends to the Administrator, AMS, that a hearing notice be issued. If he concurs, the Administrator issues the notice. The Administrator may also deny a hearing request.

The Secretary may propose a new order or amendments, but he seldom does. There have been cases when the Secretary initiated a public hearing after determining that certain order provisions were no longer carrying out the intent of the Act and no industry proposal to remedy the situation was forthcoming.

Most milk order amendment hearings are limited to the consideration of proposed changes in an individual order of a technical nature with little or no effect on price levels. Appearances at such hearings usually are by professional employees of cooperatives operating in the market, local handlers, and representatives of regional and national handlers with plants in that market. Consumer representatives seldom appear at hearings of this type.

Because of the necessity for close intermarket price alignment, hearings to review class I price levels are usually called on a national basis. Information concerning the time, place and subject matter of such hearings is disseminated through national news services, and directly to trade organizations, national consumer groups, members of Congress and to State Governors. The position of milk producers is often presented by a representative of the national producer organization, representatives of all the large cooperatives, some smaller producer groups, and individual dairy farmers. Witnesses for handlers usually include a representative of national trade organizations and representatives of the larger milk distributors. Occasionally, Congressmen, state officials, college officials and consumer representatives testify at these hearings.

The recent national hearing at Chicago, Illinois, which considered national class I price levels, was attended by representatives of all these groups.

Public hearings are conducted by an Administrative Law Judge under formal rules and regulations. The rules require that all evidence be taken under oath or affirmation. In addition to determining the order of appearance of witnesses, the Administrative Law Judge rules on the application of laws and regulations during the conduct of the hearing.

USDA participation in the hearing is typically by Dairy Division marketing specialists, representatives of the Market Administrator's office for the market involved, and an attorney from the Office of General Counsel. The attorney's primary duty is to represent the Department in legal matters that may arise at the hearing. The specialists generally introduce statistical exhibits and cross-examine witnesses when necessary to insure that the record contains a full disclosure of the facts pertinent to the proposals being considered. On occasion, they offer limited factual testimony concerning the technical aspects of order provisions. They do not appear as advocates of a proposal except in the rare instances when the Secretary has submitted proposals on his own initiative.

After the hearing has closed, the marketing specialists carefully study the hearing record and appraise the issues. Their appraisal is discussed within the Dairy Division and a recommended decision is then drafted. When the recommended decision has been reviewed and approved by the Office of the General Counsel for legal sufficiency, it is transmitted to the Administrator, AMS, for his approval and issuance. Major price decisions are discussed with the Secretary's office before the recommended decision is issued.

Opportunity is provided for all interested persons to submit exceptions to the recommended decision. The findings and conclusions of the decision are re-examined by the Dairy Division specialists in light of the exceptions filed. The specialists then draft a final decision. Following its approval by the Dairy Division, the Office of the General Counsel, and the Administrator of AMS, the final decision is transmitted to the Secretary for his approval and issuance.

Producers must approve a proposed new order or amended order before it may be issued. When the required producer approval is obtained, the Secretary issues the order or amended order.

Delegations of Authority

The organizational levels within the Department at which authority is delegated for issuance and administration of milk orders are:

1. Issuance of notice of hearing and acceptance or denial of proposals to be heard - Associate Administrator, Agricultural Marketing Service;
2. Issuance of recommended decision and the establishment of time period for the filing of exceptions to the recommended decision - Associate Administrator, AMS;
3. Issuance of the final decision and proposed order, including a referendum order when called for - Office of the Secretary;
4. Issuance of final order - Office of the Secretary;
5. Formulation of rules and regulations to carry out order provisions - Director, Dairy Division, AMS. Although the Director of the Dairy Division has delegated authority to approve formal rules and regulations to carry out the terms of Federal milk orders, this authority is seldom used since the orders themselves generally contain all essential provisions.

Order Administration

The agency for the administration of a Federal milk order is a Market Administrator, a full-time Federal employee. Market Administrators are appointed by the Associate Administrator, AMS, and subject to removal at his discretion. Market Administrators and their employees come under Civil Service Commission regulations as Schedule A employees. They are under the direct supervision of the Director, Dairy Division, AMS.

THE MILK PRICING PROBLEM

With a system of classified prices of the general type utilized under Federal orders, manufactured dairy products are the residual use of milk supplies. Fluid milk products return the higher class I price to producers and have first claim on supply. Semiperishable products, such as ice cream and cottage cheese, may be made from either local milk supplies or from intermediate products shipped in from surplus areas. Hard products such as cheese, butter, and powder, are residual claimants on milk supplies. The relative prices of these products determine the allocation of milk among the alternative uses. Thus, in analyzing any milk-pricing problem, its impact on the entire dairy production and marketing system must be considered.

In carrying out his responsibilities under the Agricultural Marketing Agreement Act of 1937 and the Agricultural Act of 1949, the Secretary of Agriculture is charged with establishing a structure of prices which will assure adequate, but not excessive, supplies of milk. This requires establishing and maintaining a balance between: (1) the need for prices to producers sufficiently high to maintain production; (2) the willingness and ability of consumers to pay for milk; (3) the public interest in efficient allocation of resources; and (4) the overall interest of producers, handlers, and the public in the orderly flow of products from the producer to the consumer.

Such a balance requires a structure of prices--under both the Federal order program and the price support program--at a level which recognizes the sum total of forces affecting the national supply and demand for milk and which will create a balance between supply and demand over time.

Establishing prices at levels higher than needed to assure an adequate supply would cause producers to expand production to the point where milk surpluses become burdensome. Government purchases cannot be expanded without limit. Without an effective means of production control, substantial enhancement of producer returns by raising prices above the level which balances supply with demand reasonably well becomes self-defeating. As excess supplies build up, a substantial reduction in price is required to eliminate surpluses. A built-in cyclical pattern of production and prices results. Such a pattern is inconsistent with the goal of orderly marketing. For the producer, it provides a boom-or-bust price structure with no assurance of consistently reasonable returns. Resource misallocation results as resources move into the industry during expansion and are forced out during periods of contraction.

Establishing prices which are too low has even more serious consequences. In addition to jeopardizing the supply of milk, the financial structure of a basic industry can be undermined, and the livelihood of many family farm operations threatened. If properly utilized, the Federal order and price support programs stabilize prices at a level which provides the producer and his family with a reasonable return on labor, capital and management. With unrestrained production, the primary method of providing for higher producer returns must involve establishing support and Federal order prices at a level which will result in a reasonable balance between milk production and consumption. While there is room for discretion as to the level of prices to be established, the amount of discretion is limited by both the provisions of the Act and the economics of milk production and consumption.

To establish a structure of prices which recognizes the sum total of forces affecting the national supply and demand for milk, the interdependence of all parts of the milk pricing system must be recognized. At the present time, approximately 75 percent of the Nation's

milk supply is fluid grade and about 55 percent of all milk is used for fluid products (table 2). Federal order receipts represent about 62 percent of total milk marketings (table 3). Thus, the level of Federal order class I prices directly influences the blend price received by producers of 62 percent of the total milk supply.

The total supply of milk depends on the prices paid to producers of Grade A and manufacturing grade milk, expected future prices, present and expected cost of producing milk, and alternative farm and off-farm opportunities. The demand for milk and dairy products depends on their prices, the availability and price of substitute products, consumer income, population growth, and changes in consumer tastes and preferences.

At the present time, Federal order class I prices move up and down with changes in the average price paid for manufacturing grade milk in Minnesota and Wisconsin. The manufacturing milk market reflects the impact of all supply and demand factors operating in the dairy economy, providing a sensitive measure of changes in the overall supply-demand balance in the dairy economy.

The use of manufacturing milk prices as a mover of class I prices has provided the necessary link between the price support and milk order programs. Under present arrangements, changes in support price levels are directly reflected in class I prices as well as in prices paid for milk for manufacturing. The Secretary can adjust price support levels upward or downward with the knowledge that the change will be reflected throughout both the fluid and manufacturing segments of the industry.

Close coordination under the milk order and support price programs is needed. Excessive upward movement of the class I price, independent of support price change, can result in unneeded supplies of milk which end up in the hands of the Commodity Credit Corporation and increase support program costs. In such a circumstance, the Secretary would be faced with an inconsistent policy of increasing class I prices while reducing support prices, with the burden falling on manufacturing producers.

Sharp increases in the costs of dairy farm operations in 1973 and 1974 are putting a squeeze on dairy farmers. Between September 1972 and September 1974, the value of the feed concentrates fed to dairy cows increased 91 percent, while the average price of milk eligible for the fluid market increased 27 percent (table 4). Prices of almost all other inputs were increasing at the same time. In response to these pressures, milk production has been declining over the last two years. Although milk production has been running ahead of year-earlier levels in recent months, a downturn has started because of high feed prices and other production costs. If 1975 feed crops are substantially better and feed prices lower, it is possible that milk production will begin to recover next fall.

Table 2

Milk sold to plants and dealers, fluid milk product sales in the United States, 1964-1974

Year	:	U.S. marketings			:	U.S. fluid milk product sales (product weight)
	:				:	
	:	Total	Manufacturing: grade	Fluid grade	:	
	:				:	
<u>Million pounds</u>						
1964		114,270	36,566	77,704		56,420
1965		112,720	34,943	77,777		57,570
1966		109,699	34,007	75,692		58,240
1967		109,433	32,830	76,603		57,600
1968		108,811	32,643	76,168		58,440
1969		108,653	29,336	79,317		58,675
1970		110,043	28,611	81,432		58,530
1971		112,201	26,928	85,273		59,220
1972		113,990	26,218	87,772		60,720
1973		110,061	24,213	85,848		60,680
1974 <u>1/</u>		110,208	24,246	85,962		59,450

1/ Estimated.

Source: Milk Production, Disposition, and Income, SRS, USDA, issues 1965 through 1974; and Dairy Situation, ERS, USDA, November 1969 and November 1974.

Table 3

Producer milk deliveries under Federal orders, and deliveries used in Class I compared to U.S. marketings and U.S. fluid product sales, 1964-74

Year	Federal milk orders				
	Producer deliveries <u>1/</u>	Class I deliveries	Prod. dels. as a pct. of U.S. marketings	Class I as a pct. of U.S. fluid product sales	Class I util. pct.
	Mil. lbs.	Mil. lbs.	Percent	Percent	Pct.
1964	54,447	33,965	47.7	60.2	62.4
1965	54,444	34,561	48.3	60.0	63.5
1966	53,012	34,805	48.3	59.8	65.7
1967	53,761	34,412	49.1	59.7	64.0
1968	56,444	36,490	51.9	62.4	64.6
1969	61,026	39,219	56.2	66.8	64.3
1970	65,104	40,063	59.2	68.4	61.5
1971	67,872	40,268	60.5	68.0	59.3
1972	68,719	40,938	60.3	67.4	59.6
1973	66,217	40,518	60.2	66.8	61.2
1974 <u>2/</u>	67,872	39,434	61.6	66.3	58.1

1/ The term "producer deliveries" as used in Federal milk order statistics and the term "milk marketings" as used by SRS are not the same. Changes in "milk marketings" generally can be attributed to changes in milk production. On the other hand, changes in "producer deliveries" can result not only from changes in milk production but also due to two other important factors: (1) the growth of the Federal milk order system due to either the emergence of new orders or the expansion of existing orders, and (2) the addition to existing orders of new producers and plants which had not been previously regulated. From 1966 through 1968, comparability of the series over time is seriously impaired by the absence of the Chicago order which currently accounts for 9.3 percent of the U.S. supply of fluid-grade milk.

2/ Estimated.

Source: "Federal Milk Order Market Statistics," AMS, USDA.

Table 4

Cost of dairy ration and milk price, 1950-74

Year	Dairy ration cost	Average price received by farmers for milk eligible for fluid market
-----Dollars per 100 pounds-----		
1950	3.16	4.36
1955	3.16	4.50
1960	2.92	4.69
1961	2.92	4.65
1962	2.95	4.54
1963	3.04	4.53
1964	3.03	4.58
1965	3.03	4.63
1966	3.15	5.17
1967	3.23	5.43
1968	3.10	5.67
1969	3.15	5.87
1970	3.28	6.05
1971	3.44	6.19
1972	3.52	6.38
1973	4.88	7.42
1974 <u>1</u> /	6.15	8.63

1/ Ten-month average.

CONCLUSIONS OF THE TASK FORCE

General

The existence of Federal milk marketing orders has an undergirding effect on cooperative bargaining power in obtaining over-order prices through:

- 1) setting a floor under cooperative selling prices, so that a competing cooperative cannot reduce its selling price below the Federal order minimum price;
- 2) auditing prices paid by handlers and the class use of milk;
- 3) insuring honest weights and tests, so that a competitor cannot undercut the price by cheating on weights and tests;
- 4) providing market information.

The Task Force concludes that Federal milk marketing orders have some significant effect, over time, on undergirding over-order prices. Given the existing relationship between order and market prices, this undergirding is probably less of a factor now than it has been in the recent past (see table 1).

The existence of a classified price system under Federal milk marketing orders, by definition, raises class I prices above the level which they would otherwise reach. By the same token, it lowers class II prices below the levels which they would reach. However, the price increase on class I milk is modest. Even if the class I differential in the base zone were reduced to zero, the differences in transportation costs between fluid milk and manufactured products would result in substantial differences between the value of milk for use in fluid products and in manufactured products at markets distant from the Upper Midwest.

Hence, the classified pricing system as presently and historically administered under the Federal milk marketing order program raises average prices modestly and increases stability. On balance, we conclude that this is not inflationary.

The seasonal price and production problem is handled efficiently under the present system and provides equity among producers. Seasonality of production in fluid milk markets has been significantly reduced.

On the Decision-Making Processes

Within AMS the analytical and decision-making processes for Federal Milk Marketing Orders have been and are being conducted in a professional and objective fashion. No agencies outside AMS now participate in the decision-making process.

The Act under which orders are issued prescribes that these decisions be based solely on evidence produced at public hearings. The Department's formal rules and regulations specify detailed procedures for carrying out this provision of the law. One of the important regulations in this regard prohibits any discussion of the issues, merits, or evidence between Departmental officials and interested parties on matters on which there has been a hearing and on which a decision is pending.

The decision-making processes, with respect to the issuance of a milk marketing order or amendment, are soundly-based and well-executed. Careful attention is given by the analyst (marketing specialist) to the development of an adequate hearing record with the evidence necessary to carry out the required analysis to determine what would be the effects of the various proposals. He questions (cross-examines) witnesses to make clear the factual basis for testimony. In other words, simple assertion as to material facts is not allowed to stand without an investigation (question) of the basis of the assertion.

The information available from the Hearing Record has generally been adequate to make an informed and objective decision. There are times, particularly on important or complex issues, when more information--specifically more analytically-oriented testimony--would assist in making better decisions. In addition the focus of such information is seldom on the problem of inflation, although anyone could testify along these lines.

About Inflationary Impacts of Milk Market Order Actions

The Federal milk marketing order system plays essentially a passive role in price change. The system is such that minimum price levels established by the orders fluctuate in a fixed relationship to the prices in the manufacturing milk market where competitive forces of supply and demand operate (with the price support level as a minimum). The question of whether or not the public interest is being served by the existence and mode of operation of milk marketing orders can only be answered in the context of all of the institutions of the dairy industry including the price support program and cooperatives.

Essentially all significant actions relating to milk marketing orders are those which directly determine price or, more often,

designate the method by which price is to be determined. The potential inflationary impact of these provisions must be judged largely in terms of their impacts upon the entire supply-demand situation in the dairy industry. If the entire structure of milk prices--with minimums established under milk marketing orders and under price supports and market prices sometimes above the minimums--is too high, surpluses will be generated and acquired by the Commodity Credit Corporation. Thus, the operational criteria for judging the potential inflationary impacts of Federal order pricing actions is their effect on the supply-demand balance as revealed in CCC purchases of surplus dairy products. At present, such purchases are 1-2 percent of total supplies and have been as high as 14 percent in the early 1960's (table 5).

This criterion can only be applied over a time period long enough to judge the impacts of a given price structure on both supply and demand. Supply effects, in particular, take several years to work themselves out. The biological process of production is a long-term one and the responses of producers are relevant primarily as they relate to long-run decisions to increase or decrease herd size or to go out of business. The wisdom of any price decision can only be evaluated at the time it is proposed in terms of anticipated results over a 2-3 year period--what will the resulting supply-demand balance be? Any other criterion, especially one limited to short-run effects, will be self-defeating.

The present level of prices generated by the complex of market orders, price supports and cooperative bargaining is not inflationary, judged by this criterion. Soaring feed prices have severely restricted the profitability of milk production at the present time, particularly compared to the prosperous period of 1973 and early 1974. If 1975 crops are substantial and feed prices decline markedly from present levels, some decline in milk prices is indicated.

In the past, there have been periods when prices were too high and burdensome surpluses were generated, as evidenced by the accumulation of CCC stocks (see table 5). Most of the price increases in the sixties were due to increases in price support levels, which increased \$1.29 between 1960 and 1970 while the effective class I differential went up 24 cents.

Major changes in the Federal order program at this time, such as removal of all orders or a significant reduction in the class I price differential, would have little or no effect on market prices now and in the near future. The market power of the cooperatives is strong enough in most markets to maintain class I prices above the Federal order minimums in the short-run, even if those minimums were reduced. Such an action at this time would have a strong impact on expectations as to prices and profitability of milk production over the longer run. Thus, an action to reduce minimum class I prices, in the face of unprecedented costs of dairy-farm operation, would be widely regarded as a strong signal to get out of milk production, and thus would have the long-run effect of reducing milk supplies.

Table 5

Milk solids removed from the market by CCC price support purchases, 1955-74 1/

Year	Milkfat	Solids-not-fat	As a percentage of marketings	
			Milkfat	Solids-not-fat
	Million pounds	Million pounds	Percent	Percent
1955	179.6	558.0	4.3	6.8
1956	197.6	753.0	4.7	8.7
1957	222.1	867.5	5.2	9.9
1958	178.2	875.0	4.2	9.8
1959	123.8	815.6	2.9	9.1
1960	122.6	819.8	2.9	8.9
1961	305.0	1,075.3	9.1	11.2
1962	402.4	1,399.0	9.1	14.3
1963	291.8	1,210.1	6.7	12.4
1964	287.6	1,166.9	6.5	11.6
1965	217.4	1,074.0	5.0	10.8
1966	15.7	352.1	.4	3.7
1967	274.1	717.7	6.5	7.5
1968	193.2	575.4	4.7	6.0
1969	169.2	419.2	4.1	4.4
1970	219.2	458.8	5.3	4.8
1971	274.8	488.5	6.6	5.0
1972	208.4	362.0	4.9	3.6
1973	84.5	28.7	2.1	.3
1974 <u>2/</u>	46.2	244.9	1.1	2.6

1/ Purchases, delivery basis, after domestic unrestricted sales. Does not include discretionary purchases for program use.

2/ Forecast.

RECOMMENDATIONS

Relating to the Decision-making Processes

I

The role of the analyst in making objective findings as to the consequences of alternative courses of action is essential to decision-making. This Task Force is concerned with steps to preserve and strengthen the integrity of these analyses. The analysts must be insulated from all influences, their activity purely professional.

Grade levels of the analysts should be maintained at a level high enough to recruit and retain analysts of the highest professional caliber.

The Task Force urges that the Department take visible measures to preserve the integrity of the analytical process and of the analysts which must carry it out. The image and reality of the independence and integrity comparable to that of Administrative Law Judges is what is sought.

II

The review process for recommended decisions within AMS on major price decisions should be broadened to include personnel with expertise from other agencies of the Department, as appropriate. In addition, we recommend that while executive order No. 11821 requiring inflation impact statements is enforced, AMS should notify the Council of Economic Advisors and other appropriate agencies such as the Council on Wage and Price Stability prior to making major marketing order price decisions.

The quality of analysis could be further strengthened by providing for analyses of the consequences of alternative courses of action. This should be carried out by either ERS or university researchers, as an input into the hearings on selected issues of more than passing importance.

III

The Hearing notice should include, wherever feasible, a statement of the subject matter on which information is required in order to make a decision. This would provide guidance to potential witnesses as to the questions to be addressed and the information needed in discussing them.

Relating to Price Decisions of the Federal Order Program

****I****

Major decisions under the Federal milk order program--primarily those changing the method of determining or the level of prices--should be preceded by a careful analysis of the impacts of the proposed change and of selected alternatives on the supply, demand, and price of milk and dairy products. This analysis which would be an input into the decision-making process, should be made by ERS or some other organization outside AMS. When time permits, the analysis should be completed before the hearing is held and entered in the hearing record. Projections of supply, demand, and price should be made for at least 3 years under each of the alternatives being analyzed.

****II****

Major price actions such as lowering the Federal order class I price level are not recommended at the present time. A comprehensive study should be initiated promptly and carried out by a research agency, either ERS or a university group, of the entire structure of class I prices under Federal orders. The study should include the basis for, and effects of, the basic class I differential at the effective basing point in the Upper Midwest and the geographic structure of class I prices.

PART II

MARKETING ORDERS FOR FRUITS AND VEGETABLES,

NUTS, AND SPECIALTY CROPS

BACKGROUND

Total demand for fruits and vegetables has increased persistently during the 20th century under the impetus of population and consumer income growth. While this growth has resulted in an increase in farm production and income it has also created a variety of marketing problems.

Production of annual crops varies significantly from year to year primarily because of weather and acreage changes. This production variability coupled with high commodity perishability has generated problems in the efficient use of marketing facilities and in the development of markets. The result has frequently been harvest-time gluts of fresh produce with low prices to producers, and the discarding of part of the supply. The advent of processing and its growing importance has probably decreased the importance of these problems for some, but by no means all, commodities.

Fruits, vegetables and potatoes are highly variable with respect to size, shape, and maturity. It has been difficult, therefore, to pack a uniform product for sale to buyers in distant markets. This introduced a significant element of uncertainty in the marketing system, and led to allegations of unfair trade practices and various forms of discrimination among producers by buyers.

The inability of producers individually to achieve a supply-demand balance for horticultural crops was instrumental in early efforts to coordinate marketing. Commercial fruit and vegetable production accelerated during the early years of this century in conjunction with improved transportation and marketing facilities. But by the 1920's, the growth in production had out-paced demand. Prices received by growers sagged and they began looking for means to regulate the quantity and quality of fruits and vegetables marketed.

Several commodity groups tried voluntary market control through cooperatives. They found that orderly marketing -- an even flow to market, with uniform quality and packaging -- brought more money for their crop. But they also learned that voluntary marketing programs nearly always break down because outsiders benefit from the organization's activities without sharing any of the limitations.

Other types of marketing control programs such as clearinghouses and voluntary prorates were tried by producer groups in the early 1930's. These efforts also failed, mainly because not enough producers supported them.

Because of flaws in the voluntary organization concept, governmental marketing agreements and orders were gradually developed to enable farmers to set up workable marketing programs. The Agricultural

Marketing Agreement Act of 1937 made it possible for agricultural producers in concert with the Federal Government, to undertake activities to promote "orderly marketing, to stabilize markets against undue and excessive fluctuations, to preserve advantageous domestic markets, to minimize speculation and waste in marketing."

TYPES OF MARKETING ORDER PROGRAMS

The early history of Federal marketing order programs was one of experimentation, and many types of activities were proposed or tried during the mid-1930's. Three general types of programs became widely used in the fruit and vegetable industry: grade, size, and quality regulations; rate of flow regulations; and volume controls.

Grade and size limitations became the most widely-used features of fruit and vegetable marketing programs. By imposing a degree of uniformity on a commodity, an industry can create buyer confidence in the quality of its product and thereby a more rational basis for trading. By restricting lesser quality products during periods of large supply, the market order can keep the price of higher quality products from being reduced as far as might otherwise occur.

Rate-of-flow programs even out the flow of produce to market, thus avoiding flooding a market one week which may result in low prices and product wastage and then starving a market the following week which results in lost sales and higher prices. In recent years, these programs have been used primarily in citrus marketing programs.

Quantity controls are used to divert excess supplies from primary market channels into alternative outlets such as noncompeting food uses or nonfood uses. These programs are primarily used for storable crops, such as dried fruit and nuts, and take the form of market allocation or reserve pooling.

The basic concept of "orderly marketing" was reemphasized in various amendments to the Agricultural Marketing Agreement Act of 1937. Authority was added in 1954 to require standardized containers and packs for fruits and vegetables to create additional uniformity in the product being marketed. Industries also could act collectively to undertake market research and development projects designed to improve the distribution or consumption of its commodity. Later, authority was added for promotion projects including paid advertising for some commodities. Authority to implement production research was added in 1970.

No marketing order can prohibit, regulate, or restrict the advertising of the covered commodity or product. Cooperative associations engaged in marketing the commodity covered by an order may represent their producer members in voting on acceptance, rejection, or

termination of an order. No order can be applicable to a producer in his capacity as a producer.

ADMINISTRATION OF ORDERS

Once a marketing order is issued, complete program and policy control rests in the Department of Agriculture. However, a unique characteristic of marketing order programs is the joint efforts of government and industry representatives to improve the marketing of agricultural commodities. While milk orders operate under fixed terms and formulas set forth in the orders, fruit and vegetable orders involve the issuance of periodic regulations.

Administrative Committees

Administrative committees are utilized for local administration of orders. They are comprised of producers, or producers and handlers, and in some cases include a non-industry or "public" representative who is often a university staff member familiar with the industry. Producer members generally constitute the majority of membership.

Committee members are nominated by the industry and selected by the Secretary of Agriculture. Membership ranges from 7 to 46, but generally falls between 10 and 20. Representation requirements are specified in each market order, the number of producer or producer and handler members is fixed, and additional requirements, such as district representation, and cooperative or non-cooperative affiliation, are common. With the exception of the Almond Control Board there are no marketing order committees on which a cooperative has a majority vote.

A major function of these administrative committees is to make recommendations to the Department concerning need for regulatory action authorized by the order. They may also propose administrative rules and order amendments, investigate and report to the Secretary complaints regarding alleged violations, and employ necessary staffs to carry out their responsibilities in administration of orders.

Committee expenses, as set forth in budgets and approved by the Secretary, are defrayed by assessments on handlers according to provisions of the order. Generally, excess funds are set aside in a reserve fund for future needs, but they may be credited to handlers' accounts against future operations or returned to handlers at the end of each marketing season upon request.

Marketing Policy and Regulation Recommendations

Each marketing order typically specifies criteria which administrative committees must evaluate in formulating a marketing policy on which their recommendations for regulatory action must be based. These criteria are principally composed of specific supply and demand factors -- e.g., production volume, stocks, crop quality, availability of substitutes, consumer demand trends -- which are likely to affect marketing in the forthcoming season. After adoption of its marketing policy the committee may meet during the season to consider the need for regulation and to develop a recommendation to the Secretary of Agriculture.

Administrative committee meetings are open to the public. All such meetings are attended by USDA field representatives who are staff members of the Fruit and Vegetable Division of the Agricultural Marketing Service (AMS). These fieldmen work with the regulated industries on a daily basis. At committee meetings, they provide technical expertise and guidance and present the Department's position on the appropriateness of the proposal.

In marketing order committee operations it is the committee manager's duty to present the required statistical reference material to all committee members at each meeting. This may range from extensive tabular material to an oral report.

Review and Evaluation

The administrative committees' recommendations for regulatory action are forwarded to the Fruit and Vegetable Division of AMS. Upon receipt, regulatory recommendations are analyzed first by marketing specialists in one of the Division's three commodity branches; Fruit, Vegetable, and Specialty Crops, with the latter principally handling matters pertaining to dried fruits and nuts. The recommendations are reviewed for consistency with (a) the regulatory authorities provided in the marketing order, (b) the marketing policy adopted by the committee, and (c) the market situation prevailing or in prospect. An evaluation is also made as to whether the proposed regulation is practical and equitable to those who would be regulated.

In conducting this review and evaluation, the specialists rely on current information from government and trade sources on shipments, market prices, production estimates, utilization, inventories, and other relevant factors. In addition they have access to all of the statistical and other technical material available to the administrative committees and field representatives at the time the recommendation was formulated.

Simultaneous with or following the analysis and evaluation by the appropriate commodity branch, the recommendation is reviewed by the Office of General Counsel (OGC) for consistency with legal authorities. Following the determination of legal sufficiency, the recommendation together with a written appraisal, is forwarded to the Director of the Fruit and Vegetable Division.

Regulation Issuance

Proposed regulations and final regulations are normally issued by the Director or Deputy Director of the Fruit and Vegetable Division, but higher-level officials may elect to assume issuing responsibility if they so desire. Even though proposed regulations have moved through extensive review procedures prior to being submitted to the issuing official, he has full discretion on the question of issuance.

The issuing official has access to the input of all parties previously involved in the proposal. Moreover, he is independently and regularly apprised of market conditions in the respective commodity sectors through market news reports, Statistical Reporting Service reports, trade publications, and special reports from field representatives and Division marketing specialists. Periodic analyses of supply-demand relationships prepared by Division economists supplement regular references and he is kept fully informed on policy matters by higher-level officials.

Issuance of marketing order regulations follows procedures prescribed by the Administrative Procedure Act. This approach allows all interested persons to participate in the development of regulatory actions through informal rule-making procedures. All regulatory actions, as well as notices that such actions are being contemplated are published in the Federal Register. Normally when regulatory action is being considered, a period of 15 days or more is provided for interested persons to comment on the proposal. All comments received are considered along with any other available information prior to final issuance.

IMPORT REGULATIONS

Whenever the grade, size, quality, or maturity of certain commodities produced in the United States are regulated by a marketing order, the importation of any such commodity, other than dates for processing, is prohibited unless the imported commodity complies with the same or comparable regulations. The specific orders where such regulations apply are those for tomatoes, raisins, olives (other than Spanish-style green olives), prunes, avocados, mangoes, limes, grapefruit, green peppers, Irish potatoes, cucumbers, oranges, onions, walnuts, dates, and eggplants. Inspection of these commodities is required before importation.

STATE MARKETING ORDERS

There are a total of 48 active State marketing orders in the U.S. These are distributed among 10 States, with 30 of the total operating in California. The main thrust of these orders is on advertising and promotion, research, mandatory labeling and inspection, disease control and similar activities. However, a number of the State orders contain provisions comparable to the enabling powers of the Marketing Agreement Act of 1937.

The Task Force did not examine these orders in detail, but felt that mention of their scope and diversity was appropriate. In some instances it would appear that the potential exists for States to either use existing orders or enact additional enabling legislation that might supplant the Federal order program should such action appear necessary to serve their farmer interests. This potential especially exists for the State of California which seems to have the most flexible legislative base and where all or a major fraction of the U.S. supply for a number of crops is grown within the State.

ANALYSIS OF PRICE IMPACT

Overview

Of the 49 existing market orders for fruits, vegetables, nuts, and specialty crops, a total of 21 contain one or more provisions that allow direct regulation of quantities marketed. Orders capable of discriminating on a temporal basis utilize flow-to-market regulations, primarily for the citrus crops. Those orders which separate markets on the basis of either final product use or imports vs. exports incorporate one or more provisions for market allocation, producer allotments, and reserve pools. The commodities in this general category are mostly specialty crops and nuts which are not very perishable. These orders which provide for quantity regulations are generally viewed as the ones most likely to have impact on prices at all levels in the marketing system.

Most of the quantity regulation orders also contain provisions for grade and size regulation. In addition, there are a number of market orders which contain provisions for grade and size regulation, but not for direct quantity control.

The market orders containing quantity control provisions and those regulating grade and size have potential for price enhancement. Many of these orders also authorize activities such as research and market development, advertising, pack and container regulation, and inspection. While these activities may provide cost savings and other benefits, they are not directly price enhancing and will not be discussed further.

Marketing Cooperatives. Producer cooperatives market more than one-third of the volume for a number of commodities for which regulations are authorized to limit quantities marketed in the primary outlet. Marketing cooperatives control the majority of citrus sales. They are least important for commodities that have orders regulating only grade and size.

The interaction of the cooperatives and marketing orders is very difficult to assess. In some cases, the market order allows the cooperative to maintain its relative importance in the market. This occurs because the order controls elements for the entire market which a cooperative could only control with nearly complete industry coverage, unobtainable for most cooperatives. Market order program restrictions apply to all producers but the burden of cooperative programs is borne by members while nonmembers would also benefit.

Marketing Orders in Perspective. In the assessment of the price impacts of market order programs for fruits, vegetables, and specialty crops, the extent to which crops are covered by orders is an important consideration. The estimated 1973-74 coverage of the crops to which these orders apply is shown in table 6.

The fruit orders covered about one-fourth of the supply within the regulated areas and the vegetable orders covered 42.8 percent of the supply within the regulated areas. In contrast, the orders for specialty crops covered the total supply within the regulated areas.

An estimate is also provided of the share of the total U.S. supply of the crops to which orders apply which is regulated under the programs. In the case of the regulated fruit crops, about one-fifth of the U.S. supply was subject to regulation. For the vegetable crops only 13.4 percent of the U.S. supply was directly subject to regulation. The specialty crops to which orders apply, being grown usually within rather limited geographic areas, were essentially totally covered by the order programs.

In assessing the data in table 6, three important considerations need to be kept in mind. First, the estimates apply to the share of the crops which were directly subject to regulation. In some instances the market order may have substantial influence on the share of the crop moving into alternative outlets (generally processing) not subject to regulation under the order program. Second, the estimates are based on crops subject to regulation, but not necessarily being regulated at the present time. In this respect the coverage of the order programs for all commodities and for most commodity categories is somewhat overstated. Finally, the estimates in table 6 cover only those crops to which orders apply; major crops such as apples, green peas, snap beans, and many others were not included.

TABLE 6

FRUITS, VEGETABLES AND SPECIALTY CROPS: Quantity Regulated Under Federal Marketing Order Programs, Production, and Percentage Regulated by Area, 1973-74 Marketing Year

Commodity and Area	Quantity Regulated 1/	Production	Percentage Regulated
	- - thousand tons - -		- percent -
<u>FRUIT</u>			
Total regulated areas.....	3,768.8	14,972.4	25.2
Non-regulated areas.....	0	4,588.7	
Total U.S.	3,768.8	19,561.1	19.3
<u>VEGETABLES</u>			
Total regulated areas.....	3,594.0	8,404.0	42.8
Non-regulated areas.....	0	18,436.0	
Total U.S.	3,594.0	26,840.0	13.4
<u>SPECIALTY CROPS</u>			
Total regulated areas.....	789.2	789.2	100.0
Non-regulated areas.....	0	2.5	
Total U.S.	789.2	791.7	99.7
<u>ALL ABOVE COMMODITIES</u>			
Total regulated areas.....	8,152.0	24,165.6	33.7 ^u
Non-regulated areas.....	0	23,027.2	
Total U.S.	8,152.0	47,192.8	17.3

1/ Or subject to regulation if no regulation in effect for 1973-74 season.

NOTE: Totals exclude any data applicable to such major horticultural crops as apples, green peas, snap beans or sweet corn not subject to Federal marketing order regulations. Also excluded are data applicable to peanuts for which an operating marketing agreement (only) exists.

SOURCE: Reports of Crop Reporting Board, SRS, USDA, and Marketing Order Administrative Committees.

Grade and Size Orders

Marketing orders regulating grade and size but not quantity apply in general to noncitrus fruits and vegetables. They regulate only the portion of the crop going to the fresh market, except for olives in which case regulations apply to the processed market.

In general, grade and size regulations eliminate lower grades and smaller sizes of the commodity from the fresh market. Because these provisions may hold produce off the fresh market, theoretically they could effect a price increase attributable to quantity reduction in addition to that due to higher quality. The two effects would be difficult to separate and there is little evidence as to the intent with which these programs have been used. There is very little data revealing the actual rates of cullage attributable to marketing order grade and size regulations, hence detailed analysis of their effects is impossible.

Insignificant Price Enhancement Potential. Although the mechanics of grade and size marketing orders theoretically offer price enhancement potential, most orders in fact are precluded by basic economic forces from actions to achieve significant price enhancement. Two points specifically indicate minimal use of marketing order quality provisions to restrict quantities to the fresh market. First, if quality regulations were used to regulate quantity flowing to fresh market to any appreciable extent, the minimum grade and size standards would have to be changed depending upon total production and grade-size composition in a given year. For example, if the Florida orange marketing order was used to limit the supply of oranges to the fresh market, the size regulation would have to disqualify more than 92 percent of total production because only about 8 percent actually enters the fresh market. But substantially more than 8 percent of Florida oranges meet the size requirements generally established for the fresh market. Examination of the minimum requirements established annually does not show much change in the minimums from one year to the next for most commodities. The influence of what appears to be minimal changes may be more important than such cursory observation indicates. But if so, much more detailed analysis including unavailable cullage rates would be required to estimate the effects.

Furthermore, most shipments of fresh products under orders using grade and size regulations face competition in one or more forms. Production from other domestic areas will not be subject to any such regulations unless those areas also have marketing orders. Even in the latter case the standards for different orders are set independently, allowing competition among areas. Other competition may come from the portion of the order area's own crop which is processed and thus exempt from order regulations. Where there are processing alternatives any fresh shipments diverted by an order may still flow to processing.

Based on these two criteria, analysis suggests grade and size marketing orders as they have been administered for apricots, avocados, peaches, sweet cherries, winter and Bartlett pears, potatoes and onions have insignificant price enhancement potential. These orders, cumulatively where there is more than one, regulate less than 50 percent of U.S. fresh utilization of the respective commodities, indicating significant competing supplies. Included are four active marketing orders for peaches, three for pears, five for potatoes and two for onions. Apricots, avocados, and sweet cherries have only one active marketing order each.

Based on the criterion of changing the grade and size regulations significantly relative to crop composition, and the existence of some inter-commodity competition, the analysis indicates grade and size marketing orders for Florida citrus, nectarines, prunes and plums and papayas also have an insignificant price enhancement potential. Marketing order regulations other than grade and size for Florida citrus are discussed in the flow-to-market section of this report.

Significant Price Enhancement Potential. Upon consideration of the two criteria already discussed, the olive and tomato grade and size marketing orders are considered to actually have significant price enhancement potential. These orders will be discussed separately.

Olives: The primary concern with olives is that the marketing order regulates essentially all U.S. production and, since there is no close substitute, price enhancement potential is theoretically substantial.

The olive marketing order regulates the handling of canned, not fresh, ripe olives grown in California. Approximately 99 percent of the olives are processed, with the insignificant amount of olives utilized fresh being sold to certain ethnic groups for home curing. Thus the processed market is the only economically significant outlet for olives. Examination of production and price data indicates that price variations are more a function of production variability than of market order actions.

Olive production amounts to between .50 and .75 pound per capita annually with the grower price between \$.10 and \$.20 per pound.

Tomatoes: On the surface the market order regulating Florida tomatoes operates in a competitive situation that would indicate a likelihood of significant price effects. Florida tomatoes are marketed chiefly from November-December through May-June. During the heaviest marketing period Florida tomatoes compete with tomatoes imported from Mexico rather than with domestic tomatoes. When grade, size and other

quality regulations are in effect under the order, they apply to competing imports also. Since there are no significant domestic supplies outside of Florida, the minimum grade and size regulations of the order are effective for the total winter supply of tomatoes in U.S. markets. Hence, they could conceivably be used to restrict quantity and thereby enhance price. Of primary importance to this order is the quantity impact of the size regulation.

Prior to 1971, size regulations were used at times to reduce the total quantity of winter tomatoes marketed. To provide a balanced effect on the two maturities, a two size system was used with a larger minimum for ripe than for mature green tomatoes. The larger minimum for ripe tomatoes actually reduced the quantity of both U.S. and Mexican tomatoes that qualified for the fresh market. But of primary importance to this issue was that a relatively larger proportion of Mexican tomatoes were picked as ripe tomatoes than was the case in Florida, and shipments from Mexico contained a greater proportion of smaller sizes than did those from Florida.

From 70/71 through 73/74, regulations issued each season by the USDA under the market order have set a single grade and size requirement, consistent with prohibiting shipments of essentially cull tomatoes. However, for the 74/75 season minimum size has been increased from 1-28/32 inches to 2-4/32 inches. To the extent this change restricts the supply of tomatoes that would have entered the market under the previous size regulation it is price enhancing. But data on the distribution of sizes shipped in recent years indicate this regulation would remove less than 1% of shipments.

Recent regulations have had no quantity impact upon imports from Mexico which has imposed its own more stringent requirements for tomatoes exported to the U.S. The Mexicans have also imposed a number of harvesting, packing and shipping "holidays" in an effort to restrict supply and raise prices for their tomatoes. Despite occasional periods of regulation, U.S. imports of Mexican tomatoes have shown annual increases over the past decade, rising from 258 million pounds in 1965 to a record high last season, well over 700 million pounds.

U.S. tomato production for fresh market during the fall, winter, and spring quarters averages about 5 pounds per capita annually and the grower price is about \$.12 to \$.16 per pound.

Flow-to-Market Orders

Flow-to-market orders have long provided a means of controlling the rate of movement of commodities from the producing area to market. The purpose of such controls is to prevent or minimize undue fluctuations in marketings and prices. Basically, regulations under the flow-to-market orders are carried out through a weekly allotment made applicable to a

given producing district. This allotment is, in turn, prorated among handlers within that district.

Commodities that most effectively lend themselves to the flow-to-market type of orders have been those capable of some limited storage within a season. Therefore, market flow orders have been most extensively used for citrus fruits, especially oranges, which have a unique advantage of being best and most economically stored on the tree.

At present, there are seven citrus marketing orders with provisions for volume-type regulations. In California-Arizona, there are three: 1) Navel oranges, 2) Valencia oranges, and 3) Lemons. In Florida, four such orders exist: 1) Interior oranges, 2) Indian River grapefruit, 3) Interior grapefruit, and 4) Limes. The only non-citrus Federal marketing order containing authority for the issuance of volume regulations relates to Tokay grapes grown in San Joaquin County, California; however, the volume regulations have not been used since 1955. It should also be noted that the volume prorate for Florida Interior oranges was operative for a period of only three weeks in 1971-72. Since then, the order was invalidated by the courts because of voting procedures.

In addition to the provisions for volume (flow-to-market) regulations, the California-Arizona orders for oranges and lemons are subject to size (but not grade) regulations. Both grade and size regulations are applicable to Florida citrus fruits for which rate-of-flow provisions are in effect.

Allotment Operation. In the California-Arizona orange and lemon orders, the weekly prorate can be established for any week of the season. However, in the case of Florida Indian River grapefruit, the individual weekly prorates can be applied for a total of only 12 weeks (during January through April) and for Florida Interior grapefruit, a total of 14 weeks during the entire year beginning August 1.

The prorate orders for California-Arizona oranges and for lemons offer flexibility with respect to short-run upward shifts in demand. Should a sudden burst of buying activity become evident, the weekly prorate can be appropriately amended on an industry-wide basis, usually based upon the initiative and recommendation of the market order committee. In addition, all three of the prorate orders permit any handler in a given week to overship his prorate by as much as 20 percent. However, the overshipment must be deducted from the handler's prorate for the immediately following week. Undershipments during a given week may be carried forward and added to the handler's allotment for the following week only.

Allotment loans are also permitted between handlers within any prorate district. Any such allotment loans must contain an agreement in which a date is specified for the repayment of the allotment to the lender during the then current marketing season.

In addition, there are special kinds of allotments. Under the so-called early maturity allotments, before the fruit reaches general maturity, the administrative committee may recommend special allotments for the handling of oranges of early maturity. ("General maturity" in any prorate district relates to such time as the committee determines that allotments should be distributed to all handlers in a given prorate district.) Another type of allotment, known as "short life" allotments, can accommodate fruit of short storage life.

Commodity and Industry Characteristics. Before proceeding with an analysis of the possible price enhancement features of the individual flow-to-market orders, a description of the commodity characteristics will be undertaken. Included are the utilization differences by producing areas.

Oranges: California-Arizona oranges dominate U.S. movement to the fresh market. In both of these States, orange production is oriented to the fresh outlet. In the 1973-74 season, fresh sales accounted for 72 percent of the combined crop in the two States and about 70 percent of all U.S. oranges moving to the fresh market.

Normally, most of the oranges produced in California and Arizona move through fresh fruit packinghouses. Here the culls and undesirable sizes are directed to processing with the higher quality fruit and better sizes moving on to the fresh market. Some volume of Valencia oranges produced in these States may at times move directly from grove to the processing plants. Valencias, because of their higher solids content (mostly sugars), are a popular variety with processors. Valencias are marketed heavily during the summer months when orange supplies in other producing areas are seasonally low or nonexistent.

In Florida, the utilization-price pattern differs markedly from that of California and Arizona. More than 90 percent of Florida's crop is processed. Before frozen concentrated orange juice achieved high market acceptance in the late 1940's and early 1950's, processing was considered a residual outlet for Florida oranges. Since then, prices paid to growers for processing fruit have more or less dictated the level of returns to growers for fresh market oranges.

Production of oranges utilized fresh is about 17 pounds per capita annually with a handler f.o.b. price ranging from \$.05 to \$.10 per pound.

Grapefruit: Florida is the major producing area for grapefruit and accounts for about two-thirds of total U.S. fresh marketings. The two marketing orders in Florida containing rate-of-flow provisions permit volume limitations to be imposed for only a specified number of weeks each season. Florida grapefruit is also subject to grade and size regulations under a separate Federal order which is additionally applicable to Florida oranges, tangerines, temples, and tangelos. For reasons discussed in the previous section ("Grade and Size Orders"), it is felt that these regulations for Florida grapefruit have had no significant price effects.

Texas is the next largest producing State. Here, marketings to the fresh outlet are controlled by a grade-and-size order program. California-Arizona Desert Valley grapefruit (marketed in the late fall to early summer) is also subject solely to grade and size regulations under a Federal order. California summer grapefruit is not regulated under any Federal order.

In all grapefruit producing States, especially Florida and Texas, processing is an important outlet. Until recently, there has been an excellent demand for both fresh and processed grapefruit because of the so-called diet binge in this country and elsewhere around the world. Due to the brisk demand, processors and fresh fruit operators actively competed with each other in the procurement of raw fruit. As a result, processing became something more than a residual outlet when viewed from the standpoint of unit returns to growers. In the past year or so, however, there appears to have been some slackening of demand in both outlets.

Production of grapefruit utilized fresh is about 9 pounds per capita annually with prices at f.o.b. ranging from \$.05 to \$.11 per pound.

Lemons: About 95 percent of the lemons produced in this country originate in California and Arizona. The balance of production is located in Florida, primarily for processing. Minimum size requirements and weekly volume allotments are the two basic features of the California-Arizona order for fresh lemons.

Unlike many fruits, lemons have relatively few substitutes, and the demand for fresh lemons is considered relatively inelastic. In addition, lemons are viewed strictly as a condiment and not as a basic food item. Annual retail expenditure for fresh lemons in 1973-74 was about 79 cents per person. A high seasonality of demand exists for fresh lemons with both sales and prices rising during warm weather.

Virtually all of the California-Arizona lemon crop is utilized. Lemons that are not marketed in regulated channels are used for processing or are exported. Generally, grower returns are far more lucrative from the domestic fresh market by export and then processing.

However, because of exceptional demand for exports during the past year or two, foreign markets have yielded better returns than the domestic fresh market.

Unlike oranges and grapefruit, lemons are not suitable for sale as fresh fruit when harvested. They are usually picked green, sorted into four color groups (dark green, light green, silver, and yellow) and placed in storage for curing under controlled temperature and humidity conditions. During the curing process the fruit undergoes changes in juice content, acidity, rind to flesh ratio, and color. Generally, tree ripened fruit has less desirable fresh market characteristics and very limited market life.

Basis for Price Enhancement. One important issue relative to rate-of-flow regulations aside from their stabilizing effect on market prices and quantities arises from their potential impact on total marketings. The rate-of-flow regulations operate on the assumption of some identifiable demand and attempt to stabilize the quantity going to the market over some time period. This is expected to stabilize price over several weeks rather than having a glut one week with consequent very low prices followed by shortages at another time with very high prices. But, unless the quantities held back from the market in the early part of the season are all put back into commercial market channels in the latter part of season, the total quantity marketed during the season would be reduced. Unfortunately there are little or no data available in the form that would permit evaluation of the relative withholdings and subsequent shipments.

The issue takes on importance where fresh marketing dominates the utilization, since large processing use would imply an adequate supply available for fresh marketing in the later time periods, or where there is not competition from competing crops to temper gains obtainable. Flow-to-market restrictions would have significant price effects when processing is an important outlet only if fresh market flows were kept at quite low levels throughout the season. But the market orders applicable for Florida citrus are limited in the number of weeks they may restrict shipments.

California-Arizona navel oranges are one commodity where fresh sales are the major outlet, hence flow-to-market provisions have significant price enhancement potential. The extent of price increases possible under such order would be tempered by competing orange supplies marketed from other areas. California-Arizona lemons are the more important commodity subject to this concern. The market utilizes about 60% fresh and faces little if any substitutes.

Analysis of Order Effects. Inasmuch as California-Arizona citrus operates much more intensively under the flow-to-market type of orders than is the case in Florida, major attention will be directed for purposes of this analysis to the California-Arizona orders for oranges and lemons. The market prorated orders operative for Florida citrus do not appear to have exerted any price enhancement, largely because of their limited use in the face of competing supplies and alternative uses.

Oranges: Examination of the weekly market flow of California-Arizona oranges over an extended period of years reveals a high degree of stability, allowing of course for normal seasonal variation within each season and minimal fluctuations in prices.

A testimonial to this stability lies in the situation that existed after the California-Arizona orange order was terminated in March 1952. Marketings immediately fluctuated widely, with prices not only rising sharply but often dropping severely for prolonged periods. The marketing orders were reinstated during the 1953-54 season, with separate orders for Navel oranges and Valencia oranges.

An analysis conducted within USDA's Agricultural Marketing Service related the prices of California-Arizona oranges to the following factors during 1948 through 1959:

- 1) Production of California-Arizona Navels
- 2) Deflated per capita disposable personal income
- 3) Fresh sales of Florida temple oranges and tangerines.

These three variables accounted for most of the variation in Navel prices for all seasons except 1952-53, the season in which the California-Arizona orange order was inoperative. Prices for 1952-53 fell significantly below the regression line, strongly suggesting that the chaotic conditions which arose following termination of the order were responsible for the demoralized price.

Lemons: The flow-to-market order for California-Arizona lemons features a highly disciplined element of control, because the demand for lemons is both highly inelastic and very much a function of weather. F.o.b. prices are, in effect, not only a function of weather but also of supplies on track in the terminal markets and supplies enroute to market.

The record has clearly demonstrated over time that any action to overload the market, under normal weather conditions or even in periods of high temperature, will result in depressed prices at the f.o.b. shipping point level for a period of 10 days to several weeks. In the case of fresh lemons, experience has shown that prices at retail have all too frequently failed to reflect any short-run recession of prices at shipping-point.

In recent years, a gradual downward drift has been noted in the per capita consumption of fresh lemons in this country. This downward drift can be attributed to competition within the lemon family itself, partly generated by market order activities. The increased availability of the "plastic" lemon is, without question, beginning to make inroads into the domestic demand for fresh lemons.

Benefits from Order Operation. It can be concluded that the Committee's actions definitely have had price enhancing implications for the California-Arizona volume prorate orders for Navel and Valencia oranges, and for lemons. However, the orders have also helped to inject a degree of price and quantity stability into the market. The extent to which the order succeeds in attaining relative price stability and an orderly flow of supplies has an impact on a number of benefits important to each of the major sectors involved in the marketing chain.

From the standpoint of growers perhaps one of the major benefits of a flow-to-market order program lies in permitting a more efficient use of resources through the ability to plan harvesting, packing and marketing operations, including not only sales but also advertising and promotional campaigns.

One of the major benefits to the wholesale and retail trade rests in the principle that orderly flow and price stability inject a degree of trade confidence and market efficiency, minimizing financial losses occasioned by unforeseen price and supply variations. The knowledge that supplies will be available in any given week permits advance planning of sales promotions and other marketing programs.

Volume Management Orders

Ten commodities are regulated through market order provisions which limit the volume going into the primary market outlet. Such direct quantity regulation theoretically gives each of the orders significant price enhancement potential. The degree of price impact for each commodity will depend upon competing supplies from domestic production or imports, the operating mechanism of the order, and the demand characteristics of the alternative markets for the commodity.

Market allocation orders in effect for almonds, filberts, walnuts, dates, raisins and cranberries set a maximum allowed to be marketed in the primary market, usually the domestic market. Surplus amounts may be sold in noncompetitive outlets, such as secondary food markets including export and for nonfood uses, or put into a reserve pool.

A reserve pool is authorized for dried prunes, hops, raisins, and red tart cherries. Quantities withheld from the market in the early part of the market season and put in a reserve pool may be released later, carried into the next season, or disposed of in noncompetitive outlets.

Producer allotments are authorized for three commodities to prorate marketable quantities among producers. For hops, the allotment operates in conjunction with the reserve pool program. For celery, marketable allotments provide the sole quantity control mechanism. A producer marketing allotment program for cranberries became available for the 1974 crop but was not implemented.

Price Effects of Market Allocation. The market allocation programs establish an upper limit on the amount of the commodity which may be marketed in the primary market. By keeping larger quantities from entering the market in which the price would fall by a greater proportion than the quantity increase and putting it into an alternative outlet in which it would not decrease price by as great a proportion, producers can increase their total revenue from the crop. The primary and secondary markets take different forms for each commodity. It would be possible for market allocation programs to be used to prevent extremely low prices in the face of very large crops or to increase revenue above what would be expected without such allocation in times of normal crops. Evidence regarding the manner in which these programs are actually used must be examined for each of the programs.

Almonds: The market order for almonds produced in California covers the total U.S. commercial crop. The order authorizes volume regulations which establish a salable percent that may be marketed domestically. The reserve almonds, subject to minimum quality standards, may be exported or used in noncompetitive domestic outlets such as feed or oil. Most reserve almonds go to export.

The almond marketing order has the ability to raise price at the producer level by limiting the amount going onto the domestic market. As administered in recent years, the program has not had a price increasing effect. In 1973 and for the current 1974 crop, there have been no limits on domestic sales under the order. In the preceding years, though a salable percent was established, it was not the determinant of domestic sales. The export market has taken more almonds than the restrictions would have dictated be kept off the domestic market.

A provision existing in the order since 1970 to permit limiting the portion of reserve almonds which may be exported has not been used. If implemented to hold reserve almonds off the export market, it could keep export prices above what may occur otherwise. Presumably, competitive forces would effect such price maintaining effects in the domestic market as well.

Almond production approximates 1.25 pounds per capita annually with average grower price normally in the range of \$.30 to \$.35 per inshell pound.

Filberts: The market order for filberts limits the quantity marketed inshell, diverting the surplus to export or shelling. Grade and size regulations are provided to maintain minimum quality.

Only in 1971 during the past 5 seasons have inshell domestic shipments of filberts been effectively restricted under the order. In the other years, limits set for domestic inshell shipments have been above actual marketings, indicating that market forces have drawn filberts into shelled outlets or inshell exports. Even though the 1971 restriction appears to have been a limiting factor in determining domestic inshell shipments, it probably had minor price impact since the quantity marketed inshell was consistent with that for the following two years when the regulations were not limiting.

Filbert production approximates .10 pound per capita annually with average grower price around \$.25 per inshell pound.

Walnuts: Commercial production of walnuts is concentrated in California, Oregon, and Washington, with over 95% in California. The walnut market order covers all production, establishing volume regulations to limit the amount of walnuts free to be marketed in the domestic inshell and shelled markets. Surplus walnuts may be exported or disposed of through oil and animal feed. Grade and size regulations set minimum quality standards for inshell and shelled walnuts.

The walnut market order, by increasing the amounts exported and crushed for oil, has withheld some walnuts from the domestic market with an accompanying higher price. Preliminary results of an ERS analysis of the walnut market order indicate possible producer price gains averaging about 5% for 1951-71 with similar increases at the consumer level. This result is based on average prices over the entire period, comparing model projected results under the order with results without an order and allowing appropriate supply response. Accompanying the higher average price was increased price stability for the period and slightly larger average production. However, the edible walnut supply was slightly reduced, since greater quantities were crushed for oil.

Walnut production of 1.00 to 1.30 pounds per capita annually brings the grower approximately \$.20 to \$.30 per pound.

Dates: The date marketing order establishes a free percentage for sale in the U.S. and Canada or to be used in specialty packs. The restricted portion of the crop may be exported or used in manufacturing products. Volume regulations are issued by date variety, but two varieties account for most of the production with the Deglet Noor variety constituting over 90% of U.S. production. Grade and size regulations cull inedible dates from those to be used for domestic package, export, and product outlets. Culled dates may be used in nonhuman outlets. Grade and size regulations do not appear to limit total quantity but do prevent the sale of some low quality dates at low prices in competition with higher quality dates.

Even though a restriction was established by setting a free percent for the 1969 through 1971 crops, it was apparently not the limiting factor in determining the amount going onto the whole and pitted domestic date market. Since 1971, no restriction has been set but approximately half the U.S. production was exported or utilized for products.

Date production is about .2 pound per capita, sold by producers at \$.08 to \$.10 per pound.

Price Effects of Reserve Pool Operation. The reserve pool programs also limit the amount going onto the primary market. But the remaining portion of the crop is physically held in a reserve pool which may later be released into the primary market, carried into the next crop year, or disposed of in secondary outlets. One possible use of such a program is to "normalize" marketing between crop years by withholding an amount from the market in a year of large production and putting into the primary market in a later year when the crop is smaller. In such a case, consumers as well as producers may benefit from the more stable market. The effect of the reserve programs depend upon the characteristics of their primary and secondary markets, and how the decisions are implemented in the program. Reserve pools are the primary regulation for dried prunes and sour cherries, and have been for cranberries although a market allotment program is now available. The reserve pool for raisins operates in conjunction with a market allocation program. Although the producer market allotment is the primary regulation device under the hop marketing order, the accompanying reserve pool gives growers producing above the allotment a possibility of obtaining a market for the excess amounts.

Dried Prunes: Commercial production of dried prunes is concentrated in California with minor quantities produced in Oregon. California production is covered by the market order. The prune market order provides grade and size limits for consumption as dried prunes, though prunes not meeting the restriction may be used for processing purposes. Volume regulation authorized under the market order establishes a free percent that may be marketed domestically or exported. The surplus pool may be released back into salable supply or shipped to noncompeting outlets such as government purchases and cattle feed. In addition, diversion of green prune plums for uses other than drying is permissible to satisfy surplus requirements.

The prune market order is able to increase prices and has kept significant portions of the prune crop off the market in several recent years. The small 1972 crop and consequent reduced 1973 carryin eliminated the need for quantity restrictions in those two years. Preliminary results of an ERS analysis of the economic impact of the prune marketing order indicate possible producer price increases averaging about 13% for 1949-71 with 9% less free supply. This estimate is based on averages for the entire period, comparing model projected results under the order with those projected without an order, incorporating appropriate supply responses. Accompanying the higher average price was increased price stability for the period.

Dried prune production of 1.25 to 1.90 pounds per capita annually is sold for \$.10 to \$.15 per pound at the grower level.

Raisins: Practically all U.S. raisin production is in the San Joaquin Valley of Central California, concentrated in Fresno County, and is covered by the marketing order. About a third of the U.S. crop is exported. Imports are normally not an important factor in the domestic market.

The market order authorizes regulation of volume which is achieved by allocating between domestic and export markets. Marketing of the free percent is unrestricted. The reserve pool may be exported to countries outside the Western hemisphere, sold to noncompetitive outlets, or sent to nonfood uses. Grade and size regulations are used to regulate the quality of incoming (natural condition) raisins and outgoing (packed) raisins. Those not meeting minimum quality standards are distilled or used for feed.

The inelastic demand at the farm level for raisins (about -.4) indicates the potential for significantly affecting the price of raisins by limiting the amount marketed. There were no limitations established on the 1972 and 1973 crops. The extremely small 1972 crop was completely utilized and there was practically no carryin available for 1973. Thus, demand for the 1973 raisin crop was high. Also during 1972 and 1973 the wine industry was very competitive for raisin variety grapes. Raisin production and carryin for the 1974 crop year appear to be about normal.

However, average grower prices for Natural Thompson Seedless raisins marketed free under the market order have been quite stable indicating definite price influencing effects of the order relative to fluctuations in grower prices received for raisin variety grapes for all uses. The reserve pool raisins have moved at steady but lower prices in most years. The strong demand for wine use probably explains the relatively high 1971 price for reserve raisins.

Somewhat more puzzling is the price differential between wine and raisin uses for such grapes in 1972 and 1973. The price offered by wineries, nearly 45% above the preceeding two years, apparently was attractive enough to negate the incentive to dry the grapes for raisins at almost double previous year prices, especially for growers not accustomed to raisin production. Too, grower prices from raisins would not be determined until cooperative returns were completed during the following year, while prices for grapes are set by wineries early in the grape growing season. Further, contract commitments may have kept some grapes in the winery channel.

Dried raisin production of 1 to 2 pounds per capita annually normally brings growers about \$.15 per pound but brought \$.35 per pound in 1973.

Red Tart Cherries: The market order for red tart cherries, established in 1971, covers about 85-90% of U.S. production and applies to the 95% or more utilized for processing. The market order is capable of increasing price by establishing a free percent to withhold cherries from the commercial market and did so in 1972. The 15% restriction resulted in about 6% or 9,500 tons being placed in the reserve pool. The remaining 9% restriction was met by cherries being abandoned in the orchard. The price increase attributable to the restriction in 1972 was offset to the extent the 9,500 ton reserve reduced price in the 1973 market when placed back into commercial channels. Further price reduction in 1973 would have been possible if abandonment was not permitted to satisfy reserve obligations. The operation of this order served as a stabilizing influence over the two years involved. Given the apparent production variability in the industry, the stabilizing capability of the order may be more important than the price increasing potential.

Red tart cherry production is approximately 1.25 pounds per capita annually selling for \$.05 to \$.18 per pound at the producer level.

Cranberries: The cranberry market order covers all commercial production in the U.S. A free percentage determines the amount of cranberries which may be marketed commercially, fresh or in products. Restricted cranberries must be disposed of in noncompetitive outlets such as development of the foreign market and new products, or abandoned. The authority to establish producer marketing allotments is available for use as of 1974.

The order is capable of increasing prices and did withhold cranberries in 1970 and 1971 but not since then. Commercial sales are approximately .9 pound per capita annually and the farm level price is about 14 cents per pound.

Price Effects of Producer Market Allotments. Producer market allotment programs are authorized for three commodities. Such a program for cranberries is available as of 1974 but has not been implemented. A Federal producer market allotment program has existed for the Florida celery industry since 1965. Prior to that the industry had been under a similar State market order program. Hops have been under a producer market allotment program since 1966.

The authority to establish "producer allotments" limits the amount of a regulated commodity which handlers may receive from individual producers. The market allotments are established early enough to provide guidelines for grower production decisions, thus have an effect which would be expected from a production control program. However, the hop order provides a reserve pool in which a producer may place production over his marketable allotment and share in proceeds of sales from the pool.

Current guidelines of the U.S.D.A. regarding producer allotment programs require they contain certain provisions before they will be considered for enactment: provision for new producers to enter the market and old producers to expand; transferable allotment bases containing safeguards against gaining unreasonable market values; and periodic updating of allotment bases. The intent is to assure that such authority will permit reasonable adjustment to changing market conditions. However, these recently established guidelines do not apply to the earlier established hop and celery market orders which do provide a barrier to entry through the market allotment features.

Hops: The hop market order establishes a salable quantity for use in domestic beer production or export. Grower allotments are determined from the growers base allotment applied to the salable quantity. Production in excess of the allotment is placed in the reserve pool to be sold if needed to meet domestic or export requirements or to be disposed of in noncompetitive outlets such as packaged hops for home use, export of old hops, fertilizer, or mulch.

Though the order provides a stringent control mechanism and the demand elasticity indicates significant price impact potential from regulating quantities of hops, little effect is likely at the consumer level. Hops are used by brewers as a bitter flavoring agent in the production of beer. The amount of hops averages about 1/4 pound per 31 gallon barrel of beer, varying somewhat depending on the variety of hops used and the desired bitterness. Hops are an essential ingredient but the cost is approximately .7 cent per gallon of beer for domestic hops.

Florida celery: The Florida celery marketing order became effective in November of 1965; California has no order. The only provisions utilized to date are for producer shipment allotments and market development. The allotments established have been consistently above the amounts actually marketed. Because the number of Florida celery producers is quite small relative to many other vegetable crops, there is some possibility that the order has indirectly affected price by serving as an industry coordinating and information exchange device. Further, the timing of the marketable allotment decision which is made in June before planting seed beds in July makes possible production decisions aimed at producing only the amount allotted. Shortfalls of the allotment would be explained by such behavior combined with yields below those expected when making production decisions. A second market order committee meeting is held before November 1 to review the situation for significant occurrences which may affect the market season starting in November.

The impact of the allotment provision would be moderated by the competing California crop which generally commands a price premium over Florida celery. Comparing Florida and California producer prices from 1960-1973 indicate a general uptrend in Florida prices relative to California, approximating 5% or less. Some of this relative shift is probably attributable to expansion of California production which would hold the California price down somewhat. Presumably, part of the relative change would be due to the effects of the allotment system and associated barriers to entry or expansion of production in Florida. The system operated in the early 1960's under State authorization, changing to a Federal program when the Florida enabling legislation was ruled unconstitutional.

Total U.S. celery production is about 8 pounds per capita annually sold at the producer level for \$.05 to \$.06 per pound.

CONCLUSIONS

Grade and Size

Marketing orders regulating grade and size provisions exist for a number of commodities. However, based upon the analytic criteria developed, it was concluded that most such market orders had no significant price enhancing results. Upon consideration of the criteria regarding the portion of the crop marketed fresh and competition from other production areas, the olive and tomato grade and size marketing orders are considered to actually have significant price enhancement potential.

It was concluded that the market order for ripe olives could have significant price increasing impact, because the total U.S. supply is covered under the market order. But it does not appear that the order has had such impact.

In the case of the Florida tomato marketing order, prior to 1971, size regulations were used at times to reduce total domestic and imported quantities of tomatoes marketed and thus held price above what would have occurred. The market order has not used regulations in that manner since, but Mexico has controlled its exports in a manner to affect the price it could obtain in the U.S. market.

Flow-to-Market

The flow-to-market regulations have inherent potential price enhancement capabilities, but also provide increased price and quantity stability within the season. In addition, increased production is generated over the level expected without such an order.

The Task Force concludes that the California-Arizona volume prorated market orders for Navel and Valencia oranges have had price enhancing effects. Largely because of their limited use in the face of competing supplies and alternate uses, the market prorated orders operative for Florida citrus do not appear to have exerted any price enhancement.

For the California-Arizona lemon marketing order, the highly inelastic demand for lemons and the quantities diverted from the fresh market indicate that the market order has been managed to provide significant price enhancement.

Quantity Control

The market allocation programs have been operated in most seasons to take advantage of the price enhancement capability of their provisions. It was concluded that the market orders have had significant impact for walnuts and cranberries and could do so for almonds.

Reserve pool regulations were operated in a manner to have significant price enhancement for dried prunes and tart cherries.

Prices for raisins have been enhanced through a combination of reserve pool and market allocation regulations.

The producer market allotment programs for hops and Florida celery operate to enhance price by indirectly controlling production and raising costs of entry.

These quantity control programs have increased price stability, hence increased production has been stimulated by market order actions. In the case of the nut and tree fruit crops, the long lead time in obtaining commercial production from new plantings is an important consideration.

RECOMMENDATIONS

Relating to the Decision-Making Processes

****I****

The decision-making process under which market order regulations are established does not presently require incorporation of information directly related to assessing inflationary impacts. It is recommended that requirements be instituted to assure that such information is considered in the decision process for those market orders identified by appropriate sources as having inflationary concern.

****II****

The decision-making functions for establishing market order regulations are currently delegated to Director or Deputy Director levels without requirement for higher level assessment of inflationary impact. It is recommended that the Marketing Policy for each season should contain a price impact assessment for approval at a higher level or under guidelines at the delegated level. Decisions on regulations issued within the season could continue to be made at the delegated levels, unless major changes not reflected in the Marketing Policy occur.

Relating to Program Operations

****I****

The producer market allotment programs currently authorized increase costs of entry, but are not subject to the guidelines for such programs which have been established since the initiation of those orders. It is recommended that consideration be given to subjecting those orders to the currently effective guidelines for establishing new producer allotment programs.

****II****

Beyond those established in the statute, guidelines similar to those developed for producer allotment programs have not been established for other types of market order programs. It is recommended that such guidelines be established for each type of market order.

****III****

The data and related analysis available to evaluate the price effects of proposed market order actions, including the adoption of the Marketing Policy and major changes in the regulations, varies between crops and market orders. For some commodities the data appear adequate, but may be lacking for others. The Task Force recommends that a systematic review and evaluation of the adequacy of the data and related analysis available, relevant to decisions regarding price impacts, be undertaken. Significant gaps in the data base should be identified and necessary additional data obtained, including grade and size composition of the crop produced in the area subject to regulation under the marketing order.

Separate View of

Oswald Blaich
Office of Planning and Evaluation
United States Department of Agriculture

The report in several places leaves the impression that consumers (as well as producers) benefit from more stable prices. This is not generally true for farm products where the underlying causes of price fluctuation lie in production.

A recent study conducted by S. T. Turnovsky ("Price Expectations and Welfare Gains from Price Stabilization--JAE, November 1974) concludes that price stabilization makes consumers worst off and producers better off when the basic sources of instability are in supply. It is only when the basic sources of instability are in demand (which is not the usual case for milk, fruits, or vegetables) that consumers benefit from price stabilization.

Separate Views of

John C. Blum
Floyd F. Hedlund
Agricultural Marketing Service
United States Department of Agriculture

We believe that the report's recommendations go beyond the bounds of the Task Force assignment -- which was to evaluate inflationary impact of marketing orders and recommend program modification where necessary to reduce inflationary impact.


The milk section of the report views increases in milk prices over time in their relation to increasing costs and changes in other market supply and demand conditions, and correctly concludes that "the present level of prices generated by the complex of market orders, price supports and cooperative bargaining is not inflationary." Thus, the report supports no need for program modification to deal with inflationary impact.

The Task Force recommendations with respect to milk relate to "broadening" the pre-decision review process, "strengthening" analysis by involving organizations "outside AMS," and preserving the integrity of the decision-making process. These are general management considerations which are inappropriate in this report.

In view of the number and diversity of crops covered by marketing orders, the Task Force analysis for fruits, vegetables and specialty crops was limited to "price enhancement," without reference to costs or other marketing conditions such as were considered for milk. Price enhancement was found to be minimal, and there was no positive finding of inflationary impact as orders are presently administered. Therefore, the report supports no need for modification of fruit and vegetable marketing orders to deal with inflationary impact.

As in the case of milk, the recommendations for fruits, vegetables and specialty crops include general administrative considerations such as modification of producer allotment programs, delegations of authority, establishment of program guidelines and types of analysis to be included, which are not supported by the evidence in the report. We believe that these recommendations also are inappropriate.

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